

## Message from the Chair

I am pleased to present the 2001 Annual Report of Investments for the period ending June 30, 2001 to you, the participants and beneficiaries of this retirement trust fund.

The 12 months ending June 30, 2001 were very difficult for investors. Stock markets both domestically and internationally suffered substantial declines. Growth oriented stocks, that had fueled the extraordinary market returns of the last several years, suffered sharp declines. U.S. stocks registered a loss of 14.83% as measured by the Standard & Poor 500 Stock Index, while the Russell 2000 Stock Index (comprised of the smallest 2000 of the top 3000 companies ranked by market capitalization) achieved a modest positive return of 0.57%. International stocks, as measured by the MSCI-EAFE Index, fell 23.83%. The only bright spots were real estate and fixed income markets. Both achieved very attractive positive returns.

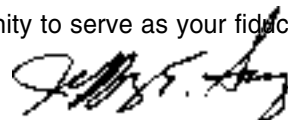
TRS weathered this challenging environment in reasonably good form. The System's well-diversified investment approach limited TRS' decline to -5.35%. This negative return almost matched the System's policy target index return of -5.13%. With the exception of domestic equity, ASPIB's managers exceeded their benchmark targets. On balance, TRS was slightly overallocated to equities relative to the long-term target. This detracted from performance in the 2001 fiscal year while it contributed positively to returns in prior years.

Despite the disappointing year, over the longer term, fund performance exceeds the returns of the policy benchmark, and the System's actuarial earnings target. For example, TRS has achieved a trailing five-year return of 9.37% annually. This exceeds the System's policy target index return of 9.21% and the actuarial earnings assumption.

The trustees work hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. The asset allocation plan adopted by the trustees called for an investment distribution as follows: 41% in domestic equities, 17% in international equities, 30% in domestic fixed income, 5% in international fixed income, and 7% in real estate. This asset allocation is reviewed annually and has been slightly modified for the new fiscal year. It, however, is designed to provide competitive returns at a reasonable level of risk. Fiscal 2001 results were well within the range of shorter-term returns envisioned as possible.

ASPIB represents over 60,000 participants and beneficiaries. The trustees strongly believe that you should be kept well informed about the performance of your retirement funds, and about what we as fiduciaries are doing on your behalf. To this end, we are proud of the ASPIB web site, which can be accessed at [www.revenue.state.ak.us/treasury/aspiib/index.htm](http://www.revenue.state.ak.us/treasury/aspiib/index.htm). We continue to encourage member participation at our meetings, and welcome your letters and comments.

On behalf of all the trustees, thank you for giving us the opportunity to serve as your fiduciaries.



Jeffrey E. Sinz, Chair

## ALASKA STATE PENSION INVESTMENT BOARD



### **Jeffrey E. Sinz, Chair**

Appointed by the Governor

Jeffrey E. Sinz, Chair, was appointed to the board by Governor Knowles. Mr. Sinz is currently employed as Director of Finance for the Kenai Peninsula Borough. He has over twenty years experience in public sector finance including thirteen years with the Municipality of Anchorage where he was Municipal Accounting Officer, Director of Finance for the Anchorage Telephone Utility, Finance Manager for the Solid Waste Services Utility, and a Senior Budget Analyst for the municipal general government. He also worked for two years as a financial planner and supervisor with the Alaska Railroad Corporation, and for five years as a financial administrator with a Wisconsin public school district. Jeff also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. Mr. Sinz's term expires December 31, 2004.



### **William "Riley" Snell, Vice Chair**

Appointed by the Governor

William (Riley) Snell, Vice Chair, was appointed to the board by Governor Knowles. Mr. Snell has held numerous positions in State government. He served as the Executive Director of the Alaska Industrial Development and Export Authority (AIDEA) from July 1992 until November of 1996 overseeing banking and development programs. Four years prior to the Executive Director position, Riley served as Deputy Director-Development at AIDEA. From 1985 until July 1989 he served as Deputy Commissioner for the Central Region of the Department of Transportation and Public Facilities. Riley possesses over 27 years of experience in State Transportation and Public Facilities Development and Public Financing. Currently Riley is Vice President and General Manager of Cable and Entertainment for General Communications Inc. (GCI). His responsibilities at GCI include CATV product management as well as construction and maintenance of all outside plant facilities for the company. Mr. Snell's term expires December 31, 2002.



### **Gail R. Schubert, Secretary**

Appointed by the Governor

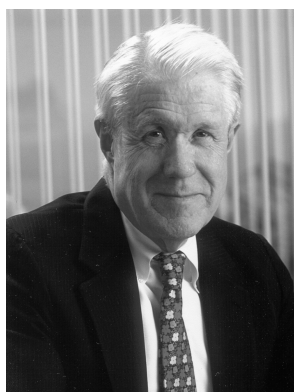
Gail R. Schubert, Board Secretary, was appointed to the board by Governor Knowles. She is currently a member of the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. Her practice includes health care and fisheries issues, tax, estate planning, and corporation law. From 1992 to 1995, Ms. Schubert practiced law at Birch, Horton, Bittner & Cherot, and prior to that, from 1982 to 1992, Ms. Schubert practiced law in New York City at the firms of Rogers & Wells; Fried and Frank, Harris, Shriver & Jacobson; and at the Federal Reserve Bank of New York. Ms. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She served on Governor Knowles' Fiscal Policy Transition Team, and serves as Chair of the Alaska Native Heritage Center, and on the boards of the Bering Straits Native Corporation, Khoanic Broadcast Corporation, Alaska Native Justice Center, and Akeela Treatment Services. Ms. Schubert's term expires December 31, 2003.



### **Gary M. Bader**

PERS Representative

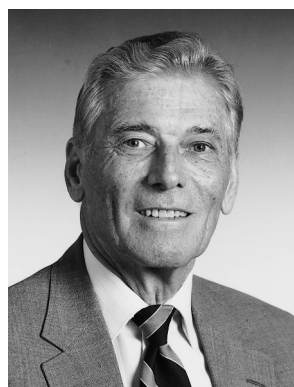
Gary M. Bader was elected by the Public Employees' Retirement System. Mr. Bader has held numerous positions in State government including three years in the Office of Management and Budget and seven years in the Department of Administration, where he was Deputy Commissioner and Director of Retirement and Benefits. He is currently Superintendent of Schools for the Juneau School District. Mr. Bader has a B.S. in Business Administration and a master's degree in Education Administration. He was previously employed with a major Wall Street investment firm where he was licensed with the New York Stock Exchange. Mr. Bader's term expires December 31, 2002.



### **Wilson L. Condon**

Statutory Representative

Wilson L. Condon was appointed Revenue Commissioner in February 1995. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. He was a partner in a private law firm from 1983-1995. Wilson was lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980-1982 and as Deputy Attorney General from 1975-1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. As Revenue Commissioner, he also sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation.



### **Merritt C. Olson**

TRS Representative

Merritt C. Olson served as a member of the Teachers' Retirement System Board for 14 years, a portion of that time as Chair. He has been an Alaska resident since 1953 and resides in Anchorage. Appointed by Governor Egan to serve on the committee that organized the Student Loan Fund, he also served as a member of AARP's State Legislative Committee. Now a retired secondary mathematics teacher from the Anchorage schools and adjunct instructor of psychology at Alaska Methodist University and the University of Alaska, Anchorage, Mr. Olson earned his Ph.D. from Rutgers University and was a Fulbright Scholar in 1957-58. He is Past President of NEA-Alaska/Retired and served on the NEA-Retired (national) Advisory Council for six years. Mr. Olson's term expires December 31, 2003.



### **James "Pat" Wellington**

PERS Representative

James "Pat" Wellington was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2004.



### **Dorothy Wells**

TRS Representative

Dorothy Wells was elected by the Teachers' Retirement System. A resident of Alaska for 38 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her B.S. degree from the University of Minnesota of Minneapolis and did graduate work both there and at the University of Alaska, Fairbanks. Mrs. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Mrs. Wells' term expires December 31, 2005.

**Department of Revenue  
Treasury Division  
Staff**

**Commissioner**

Wilson L. Condon

**Chief Investment Officer**

John R. Jenks, CFA

**Investment Officers**

Lee Livermore, CFA, Marketable Debt  
Bob Mitchell

**Deputy Commissioner**

Neil Slotnick

**Comptroller**

Betty Martin, CPA

Steve Sikes

Christine Veal

**ASPIB Liaison Officer**

Judy Hall

**Cash Management**

Michelle M. Prebula, MBA, CPA, CCM

**External Money Managers and Consultants**

**Investment Consultants**

Callan Associates Inc.

*San Francisco, CA*

The Townsend Group

*Denver, CO*

**Domestic Fixed Income**

BlackRock Financial Management, Inc.

*New York, NY*

**Domestic Equity Large Capitalization**

Capital Guardian Trust Co.

*Los Angeles, CA*

Dresdner RCM Global Investors

*San Francisco, CA*

Invesco Capital Management, Inc.

*Atlanta, GA*

McKinley Capital Management, Inc.

*Anchorage, AK*

Tukman Capital Management, Inc.

*San Francisco, CA*

**Domestic Equity Small Capitalization**

Capital Guardian Trust Co.

*San Francisco, CA*

Dresdner RCM Global Investors

*San Francisco, CA*

John McStay Investment Counsel

*Dallas, TX*

**Domestic Equity Index Fund**

State Street Global Advisors

*Boston, MA*

**Domestic Enhanced Index**

Invesco Capital Management, Inc.

*New York, NY*

**Emerging Markets**

Capital Guardian Trust Co.

*Los Angeles, CA*

J.P. Morgan Investment Management, Inc.

*New York, NY*

**Global Equity**

Lazard Freres Asset Management

*New York, NY*

**International Equity—EAFE**

Bank of Ireland Asset Management (US) Ltd

*Santa Monica, CA*

Brandes Investment Partners, L.P.

*San Diego, CA*

**International Equity—European**

Citibank Global Asset Management

*London, England*

## External Money Managers and Consultants (con't)

### International Equity—Pacific Basin excluding Japan

Invesco Asia Limited  
*Hong Kong*  
 Wellington Management Co. LLP  
*Boston, MA*

### International Fixed Income

Delaware International Advisers Ltd.  
*London, England*

### Private Equity

Abbott Capital Management, L.P.  
*New York, NY*

### Performance Measurement

Callan Associates Inc.  
*Denver, CO*

### Real Estate Management—Commingled Funds

Heitman Capital Management  
*Chicago, IL*  
 J.P. Morgan Investment Management Inc.  
*New York, NY*  
 Sentinel Real Estate Corporation  
*New York, NY*  
 UBS Realty Investors, LLC  
*Hartford, CT*

### Real Estate—Core Separate Accounts

PM Realty Advisors  
*Newport Beach, CA*  
 Sentinel Real Estate Corporation  
*New York, NY*  
 UBS Realty Investors, LLC  
*San Francisco, CA*

### Real Estate—Value Added Separate Accounts

Invesco Realty Advisors  
*Dallas, TX*  
 Lowe Enterprises Investment Management Inc.  
*Los Angeles, CA*

### Investment Advisory Council

Shlomo Benartzi  
*Los Angeles, CA*  
 Jerrold Mitchell  
*Wayland, MA*  
 Timothy O'Brien  
*Denver, CO*

### Independent Auditors

KPMG LLP  
*Anchorage, AK*

### Global Master Custodian

State Street Bank & Trust Co.  
*Boston, MA*

### Legal Counsel

Wohlforth, Vassar, Johnson & Brecht  
*Anchorage, AK*

### Supplemental Benefits System

Barclays Global Investors, N.A.  
*San Francisco, CA*  
 Capital Guardian Trust Company  
*Los Angeles, CA*  
 Citizens Funds  
*Portsmouth, NH*  
 State Street Global Advisors  
*Boston, MA*  
 T. Rowe Price Investment Services  
*Baltimore, MD*

### Deferred Compensation

Barclays Global Investors, N.A.  
*San Francisco, CA*  
 Capital Guardian Trust Company  
*Los Angeles, CA*  
 T. Rowe Price Investment Services  
*Baltimore, MD & Glen Allen, VA*

## Teachers' Retirement System Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

### INVESTMENTS

The investment of pension funds is a long-term undertaking. On an annual basis, ASPIB reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the System's constraints and objectives. ASPIB adopted an asset allocation that includes 41% in domestic equities, 17% in international equities, 30% in domestic fixed income, 5% in international fixed income, and 7% in real estate for FY01.

For FY01, TRS investments generated a -5.35% rate of return. The TRS annualized rate of return was 4.89% over the last three years and 9.37% over the last five years.

The basis of presentation for the data reported in the investment section is in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

### INVESTMENT OVERVIEW

The Teachers' Retirement System (TRS) investments matched the returns of the average large retirement system. For FY01, TRS suffered a decline in value of -5.35%, a significant reversal from the 10.15% return earned in FY00. The annualized return for the last five years was 9.37%, well ahead of the 8.25% actuarial assumption rate.

For FY01, the well diversified TRS investment portfolio muted the impact of the bear market in equities that began in the spring of 2000. For the fiscal year, the U.S. equity portfolio fell -12.20% and the international equity portfolio dropped -16.9% (versus 10.4% and 20.6%, respectively in FY00). Positive performance was provided in the U.S. fixed-income market, which generated an

11.93% return, up from last year's more modest return of 4.56%. The system's real estate investments also continued to provide strong positive returns.

ASPIB continued the systematic increase in TRS' investments in real estate and private equity. The real estate portfolio earned 11.4% for FY01 versus 8.4% in FY00. The private equity market weakened in FY01 in sync with the public equity markets. TRS' investments in this sector did earn a positive return of 1.03%, down from the generous 49.2% results earned in FY00.

### DOMESTIC ECONOMY

The U.S. Economy stumbled during FY01, with the nation's GDP rising a mere 1.2%. This was a substantial decline from the robust 5.2% growth experienced during FY00. The year closed on a weak note with GDP growth in the quarter ending June 30, 2001 a weak 0.3%.

Employment statistics demonstrated a downward shift in the job market's momentum during FY01. In FY01 the economy created an average of only 38,500 new jobs a month compared to 269,000 new jobs per month in FY00. Even though the pace of job growth slowed sharply this year, the overall unemployment rate only rose from 4.0% to 4.5%. Most of this rise took place in the final months of FY01. Confidence created by this relatively low unemployment rate helped maintain consumer spending and make it one of the few bright spots for the U.S. economy.

Purchases of big-ticket items held up better than expected even as the economy slowed. The housing sector prospered as the relatively low jobless rate and low interest rates gave people the confidence to buy homes. Sales of new homes totaled 912,000 in FY01 up from 864,000 the year before. Sales of existing homes also remained strong and finished the year at 5.18 million units, virtually tied with the 5.16 million units pace of FY00. The record pace for housing sales was 5.5 million units in

## Teachers' Retirement System Investment Report

FY99. Auto sales also exceeded expectations, averaging just under 17 million units in FY01 compared to a pace of 17.5 million units in the more robust climate of FY00. Overall retail sales growth slowed to a more modest 3.5% pace from the robust 8.1% increase seen during FY00.

Worries about inflation also subsided in FY01. The Consumer Price Index (CPI) rose 3.2% in FY01 compared to 3.7% in FY00. The Producer Price Index (PPI) increased just 2.5% versus a 4.3% rise last year. Both indices were trending lower as the fiscal year drew to a close. On average, energy prices were higher in FY01 than in FY00, but similar to the CPI & PPI benchmarks, levels were trending down during the spring. West Texas Intermediate crude averaged \$29.82 in FY01 compared to \$25.75 in FY00. More interesting was the trip these prices took over the last twelve months. The high price for FY00 was \$32.47 on June 30, 2000. Prices continued to rise before peaking at \$35.81 on September 20, 2001 and declining thereafter and closing FY01 at \$26.08 per barrel. Taking out the volatility of energy prices, the core-CPI rose a more moderate 2.8% and the core-PPI was up only 1.6%.

The weakening economy forced the Federal Reserve to aggressively reverse its tight monetary policy of FY00. In FY00, the Fed had raised the overnight funds rate six times to 6.50% to slow the very robust economy and reduce stock market euphoria. The medicine worked a bit too well and the Fed moved quickly to add liquidity to the financial markets. On January 3, 2001 the Fed cut the discount rate 50 bps to 6.00%. By the end of FY01, the Fed had cut the rate 5 more times to close the year at 3.75%.

### EQUITIES

The bear market in equity prices hit the TRS portfolio hard during FY01. The domestic stock portfolios declined in value by -12.2% in FY01 compared to a positive 10.4% rate of return for FY00. This decline pulled the annualized return for the last five

years down to 12.3% from the unsustainable 20.6% pace at the close of FY00.

There was also a seismic shift in the relative performance of the major sectors within the equity markets. After a long undisputed reign, large-company growth-oriented stocks ceded the lead to value stocks last year. Small-capitalization value stocks also returned to favor, outdoing their growth stock cousins by a significant margin. For the year, the median large-company growth manager experienced a decline of -27.9% (vs. 22.7% in FY00) and the average large-company value manager gained 10.03% (vs. -7.5% in FY00). The same story was true in smaller capitalization companies with median returns of -19.28% for growth-oriented managers (54.1% in FY00) and positive results of 27.59% median results for those invested in value-oriented companies (vs. 1.00% in FY00).

Returns for international managers were poor worldwide. Pacific Basin median manager returns dropped to -28.6% (vs. 21% last year) and European managers fell -22.8% (compared to 22% in FY00). Those invested in Japanese stocks gave back their excellent 36% returns of a year ago with a fall of -30.5% in FY01. For the year, the median core-international equity manager lost -22.5%, a bit less than the -23.8% drop in the Morgan Stanley EAFE Index.

As for TRS, its international equity portfolio fared better than the median manager with a decline of -16.9%. The annualized return for the past five years was 6.5%, much better than the 2.8% result for the Morgan Stanley EAFE Index.

### FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 27% of the total assets of TRS as of June 30, 2001. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury securities, U.S. government agency securities, investment-grade corporate bonds, and mortgage-

## Teachers' Retirement System Investment Report

backed securities. The benchmark for the TRS bond portfolio is the Lehman Brothers Aggregate Bond Index.

All the turmoil in the equity markets eventually translated into good news for bond investors. However, during the first half of FY01, the perceived risk for corporate bonds rose significantly. A series of credit problems pushed the yield spreads for corporate securities to near record levels compared to Treasuries. Asbestos litigation in particular precipitated a number of ratings downgrades and forced several firms into bankruptcy. The financial market had little tolerance for credit problems and spreads could significantly widen on the mere hint of financial difficulty. This exemplified the economic problems previously discussed. The TRS fixed income portfolios were relatively unscathed by these credit events and did not hold the bonds most impacted by these credit events.

To combat those financial problems, the Federal Reserve lowered interest rates six times during the second half of FY01. Confident that Mr. Greenspan's group could rescue the economy once again, fixed income investors jumped back into the corporate bond market and pushed spreads tighter. The rate cuts by the Fed also gave support to the general bond market and rates declined, particularly in shorter maturity securities.

Lower rates and tighter spreads generated strong bond portfolio results. For all of FY01, the TRS domestic bond portfolio gained 11.8%, compared to 4.6% the year before. This compares favorably to the Lehman Brothers Aggregate Bond Index return of 11.2% during FY01.

The international fixed-income portfolio represented just under 5% of the total assets of TRS. During FY01, the international bond portfolio had a loss of -5.7%, which was less than the -7.4% drop in the Salomon Brothers Non U.S. Government Index.

This compares to results for FY00 of -3.3% and 2.4%, respectively. The relative strength of the U.S. economy and the strong dollar made it hard going for international fixed-income markets in FY01.

The Euro, in particular, continued to struggle in FY01. Introduced at the end of calendar year 1998, the Euro slid 13% against the U.S. dollar in its first six months of existence. During FY00 the Euro fell another 8% to \$0.9525 and by June 30, 2001 it closed at \$0.849, a drop of 11% for FY01. The low point was reached in October 2000 at \$0.8272. The European Central Bank has not cut rates like the Federal Reserve as it continues to combat inflation.

### PRIVATE MARKETS (REAL ESTATE AND PRIVATE EQUITY)

Private market investments, often referred to as "Alternative Investments", are placed in an investment portfolio to diversify risk and to improve overall portfolio returns in the long term; the volatility and return characteristics of these investments do not correlate directly with the returns of the stock and bond portfolios.

At the end of FY01, TRS had 9.8% of its portfolio in private markets, compared to a target of 12%. The total market value of the private market portfolio increased by 20.2% to \$399.6 million. This increase was a result of new invested capital and modest appreciation.

#### **Real Estate**

At the end of FY01, TRS had 7.2% of its portfolio invested in real estate, well within its target of 7.0% (+/- 3.0%). At fiscal year end, the real estate portfolio amounted to \$295.3 million. The total return for real estate, net of fees, was 11.37% compared to 8.4% in FY00. Importantly, over 75% of the total return was in the form of cash distributions to the Fund. The three and five year returns were 10.1% and 12.1%, respectively.



## Teachers' Retirement System Investment Report

During the year, the pace of new commitments by the Fund's advisors moderated as competition from other sources of capital intensified and anticipated total returns on new projects were driven down. With the decline in the stock market and funding of real estate commitments made over the past 18 months, many institutions are now at or above their real estate allocations. In addition, the slowing economy has resulted in modest increases in vacancies and slight declines in some rents, resulting in a slight decline in the valuations of some real estate properties. However, the current real estate markets are not substantially over built, as was the case in the early 1990's, and, in fact, most real estate markets are generally in equilibrium in terms of supply and demand. Thus, a slowing economy may result in 1) lower pricing for real estate assets, but 2) a decline in the percentage appreciation on an annual basis in the intermediate term. The favorable supply/demand balance should result in improved performance as the economy recovers.

Real estate has proven its ability to provide a stable return component in other-wise volatile markets. As a result, the Trustees modestly increased the allocation to real estate subsequent to fiscal year-end.

### **Private Equity**

At year-end FY01, TRS' investment in private equity amounted to 2.6% of its portfolio. The estimated market value was \$104.3 million and the total return for the year was 1.0%. The decline in the total return compared to FY00, reflects the cyclical nature of this type of investment, the collapse of the "dot coms" and a sharp decline in the

NASDAQ market. Nevertheless, the net compounded internal rate of return since inception (3 ½ years) was 15.1%.

The initial public offering ("IPO") and the merger and acquisition ("M&A") markets for venture capital-backed companies slowed down considerably during FY01. While the private equity market has been negatively impacted by the burst in the "technology bubble," the pricing and terms for new investments have returned to more normal levels.

TRS' private equity investments are made through commitments to partnerships, which, in turn, make investments in privately-held companies, ranging from new businesses seeking venture capital to established businesses seeking capital to undertake a buyout or a special situation transaction. Commitments made in one year are typically funded over a three to five year period as the partnerships make investments. Investments currently made by partnerships are the result of commitments made over the past three years. As companies complete a public offering of stock or are acquired by another company, the partnerships realize their investment proceeds. Thus, the results of these private equity investments are evaluated over the long term. Historically, private equity investments have generated superior long-term returns.

Due to the success of the existing private equity program and the attractive long-term outlook, the Trustees increased the target allocation to private equity from 3% to 7%. The target allocation increases in increments through FY05.

**Teachers' Retirement System  
Schedule of Investment Results  
Fiscal Years Ended June 30**

	1997	1998	1999	2000	2001	Annualized	
						3 Year	5 Year
<b>Total Fund</b>							
TRS	18.12%	14.83%	10.67%	10.15%	(5.35%)	4.89%	9.37%
<i>Actuarial Earnings Rate</i>	8.25%	8.25%	8.25%	8.25%	8.25%	N/A	N/A
<b>U.S. Common Stock Returns</b>							
TRS Domestic Equities	27.43%	24.21%	16.56%	10.41%	(12.20%)	4.16%	12.33%
<i>S&amp;P 500</i>	34.66%	30.27%	22.76%	7.24%	(14.83%)	3.89%	14.48%
<b>International Stock Returns</b>							
TRS International Equities	18.47%	0.66%	14.75%	20.59%	(16.92%)	4.76%	6.51%
<i>Morgan Stanley Capital International EAFE</i>	12.84%	6.10%	7.62%	18.11%	(23.83%)	(1.34%)	2.83%
<b>Domestic Fixed Income</b>							
TRS	7.96%	11.52%	2.28%	4.56%	11.93%	6.18%	7.58%
<i>Lehman Brothers Aggregate Index*</i>	7.76%	11.28%	2.69%	1.69%	11.22%	6.11%	7.46%
<b>International Fixed Income</b>							
TRS	-	0.36%	5.27%	(3.27%)	(5.68%)	(1.34%)	-
<i>Salomon Non-U.S. Government</i>	-	0.89%	4.87%	2.42%	(7.43%)	(0.19%)	-
<b>Real Estate Equity</b>							
TRS	13.37%	16.99%	10.56%	8.43%	11.37%	10.12%	12.11%
<i>NCREIF</i>	11.29%	17.21%	11.24%	11.61%	11.15%	11.85%	12.74%

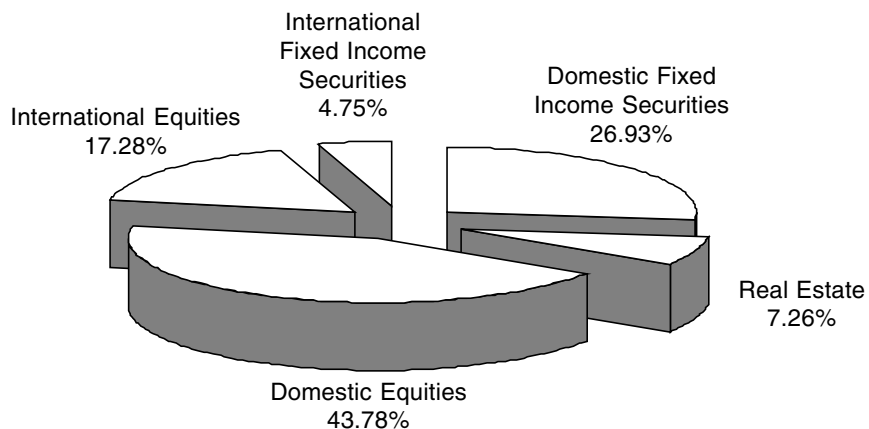
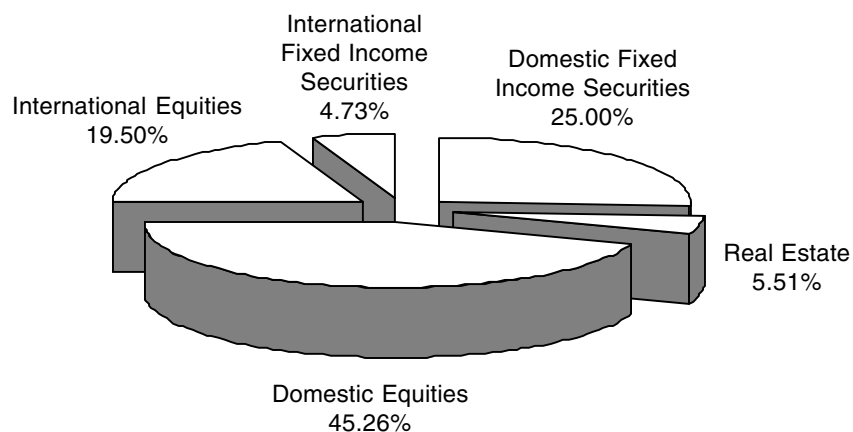
S&P 500 = Standard & Poor's Domestic Equity Stock Index

EAFE = Europe, Australia, and Far East Stock Index

NCREIF = National Council of Real Estate Investment Fiduciaries Index

The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

\*Lehman Brothers Government/Corporate Index prior to 3/31/2000.

**Teachers' Retirement System Trust Fund  
Actual Asset Allocation****June 30, 2001****June 30, 2000**

**Alaska State Pension Investment Board  
Top Ten Holdings by Asset Type  
June 30, 2001**

Invested assets under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created nine different mutual fund-like pools to accomplish the investment asset allocation policies of the ASPIB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces accounting, budgeting and administrative costs. Finally, the ASPIB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the ten largest bond holdings and the ten largest equity holdings by market value.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Due	Credit Rating
<b>Bonds</b>	1	81,006,380	76,375,000	U.S. Treasury Bond	6.250%	5/15/30	AAA
	2	61,201,290	59,000,000	U.S. Treasury Bond	6.125%	8/15/29	AAA
	3	60,052,653	56,770,200	U.S. Treasury Note	4.250%	1/15/10	AAA
	4	58,917,656	59,833,710	Fed Home Loan Mtg Corp.	6.500%	5/1/31	AAA
	5	57,111,540	58,092,135	Gov Nat Mortgage Assn.	6.500%	6/20/30	AAA
	6	56,632,050	45,000,000	U.S. Treasury Bond	8.125%	8/15/21	AAA
	7	53,677,855	55,878,344	Fed Home Loan Mtg Corp.	6.000%	3/1/31	AAA
	8	53,377,101	52,250,579	Federal National Mtg Assn.	7.500%	2/1/31	AAA
	9	52,460,000	53,750,000	Federal National Mtg Assn. Disc Note	0.000%	2/22/02	AAA
	10	51,176,436	50,921,827	Federal National Mtg Assn.	7.000%	11/1/30	AAA
<b>Equities</b>	1	141,935,625	2,911,500	General Electric Co.			
	2	103,608,900	1,419,300	Microsoft Corp.			
	3	103,179,704	1,199,764	American Intl Group Inc.			
	4	82,065,454	2,049,075	Pfizer, Inc.			
	5	81,910,453	937,727	Exxon Mobil Corp.			
	6	78,196,489	1,479,873	Citigroup Inc.			
	7	74,310,405	872,700	Federal National Mortgage Assn.			
	8	68,734,800	1,408,500	Wal Mart Stores Inc.			
	9	67,887,700	1,280,900	AOL Time Warner Inc.			
	10	65,121,900	576,300	International Business Machines			

Additional investment information on the various pools and investments may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

**Teachers' Retirement System**  
**Schedule of Investment Management Fees**  
**Year Ended June 30, 2001**

	<b>Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2001</b>	<b>Fees</b>
<b>External Management Fees</b>		
Domestic Fixed Income		
BlackRock	\$ 148,179,796	\$ 112,647
International Fixed Income		
Delaware International Advisers, LTD.	<u>578,643,617</u>	<u>262,816</u>
Domestic Equity		
Capital Guardian Trust Co.	1,005,090,696	735,487
John McStay	384,812,997	815,589
RCM Capital Management	810,595,948	1,088,158
SSgA S&P 500 Index Fund	1,082,605,405	85,711
Invesco, Enhanced Index	582,178,705	182,698
Invesco, Large Cap Active	66,296,835	438,490
Lazard Freres	471,082,201	513,420
McKinley Capital	239,567,742	332,592
Tukman, Value	<u>399,889,616</u>	<u>699,596</u>
Total	<u>5,042,120,145</u>	<u>4,891,741</u>
Private Equity		
Abbott Capital Management	<u>310,747,989</u>	<u>340,423</u>
International Equity		
Bank of Ireland Asset Management	454,861,627	536,782
Brandes Investment Partners	632,255,202	861,717
Lazard Freres	481,858,617	618,465
Citibank Global Asset Mgmt.	247,005,550	480,191
Invesco Global Asset Mgmt	81,141,724	159,772
Wellington Management Co.	<u>107,656,034</u>	<u>193,568</u>
Total	<u>2,004,778,754</u>	<u>2,850,495</u>
Emerging Markets Equity		
J.P. Morgan Investment Management	49,387,482	181,679
The Capital Group Inc.	<u>62,242,396</u>	<u>145,179</u>
Total	<u>111,629,878</u>	<u>326,858</u>
Total External Management Fees	<u>\$8,196,100,179</u>	<u>8,784,980</u>

**Teachers' Retirement System**  
**Schedule of Investment Management Fees (con't)**  
**Year Ended June 30, 2001**

	Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2001 (con't)	Fees (con't)
<b>External Management Fees (con't)</b>		
Other Management Fees		
Custodian		
State Street Corp.		<u>342,207</u>
Investment Advisory		
Callan Associates		14,125
Investment Advisory Council		36,471
The Townsend Group		<u>43,215</u>
Total		<u>93,811</u>
Investment Performance Measurement		
Callan Associates		<u>53,612</u>
Total Other Management Fees		<u>489,630</u>
Total Management Fees		<u><u>\$ 9,274,610</u></u>

Teachers' Retirement System Investment Summary Schedule June 30, 2001					
	Teachers' Asset Allocation Policy      Range		Market Value	% of Asset Class	% of Total Assets
<b>Participation in Pools Owning Fixed Income Securities</b>					
Domestic					
Short-Term Fixed Income Pool			\$ 554,765	0.05%	0.01%
Retirement Fixed Income Pool			1,047,904,251	95.47%	25.71%
External Domestic Fixed Income Pool			<u>49,194,149</u>	<u>4.48%</u>	<u>1.21%</u>
Total Domestic Fixed Income	30%	20-40%	1,097,653,165	<u>100.00%</u>	26.93%
International					
International Fixed Income Pool	<u>5%</u>	<u>2-8%</u>	<u>193,816,660</u>	<u>100.00%</u>	<u>4.75%</u>
Total Fixed Income Securities	<u>35%</u>	<u>22-48%</u>	<u>1,291,469,825</u>		<u>31.68%</u>
<b>Participation in Pools Owning Domestic Equities</b>					
<b>Small cap<sup>(1)</sup> and Alternative Investments</b>					
In Domestic Equity Pool			420,813,078	23.58%	10.32%
In Private Equity Pool			<u>104,282,278</u>	<u>5.85%</u>	<u>2.56%</u>
Total Small Cap Domestic Equities and Alternative Investment	12%	9-15%	<u>525,095,356</u>	<u>29.43%</u>	<u>12.88%</u>
<b>Large cap</b>					
In Domestic Equity Pool-active			704,562,095	39.48%	17.29%
In Domestic Equity Pool-passive			<u>554,729,137</u>	<u>31.09%</u>	<u>13.61%</u>
Total Large Cap Domestic Equities	<u>29%</u>	<u>24-34%</u>	<u>1,259,291,232</u>	<u>70.57%</u>	<u>30.90%</u>
Total Domestic Equities	<u>41%</u>	<u>33-49%</u>	<u>1,784,386,588</u>	<u>100.00%</u>	<u>43.78%</u>
<b>Participation in Pools Owning International Equities</b>					
International Equity Pool			665,402,239	94.45%	16.32%
Emerging Markets Equity Pool			<u>39,072,418</u>	<u>5.55%</u>	<u>0.96%</u>
Total International Equities	<u>17%</u>	<u>13-21%</u>	<u>704,474,657</u>	<u>100.00%</u>	<u>17.28%</u>
<b>Participation in Real Estate</b>					
Mortgages, net of allowances			442,773	0.15%	0.01%
Real Estate Pool			<u>295,319,860</u>	<u>99.85%</u>	<u>7.25%</u>
Total Real Estate	<u>7%</u>	<u>4-10%</u>	<u>295,762,633</u>	<u>100.00%</u>	<u>7.26%</u>
Total Invested Assets	<u>100%</u>		<u>\$ 4,076,093,703</u>		<u>100.00%</u>
<sup>(1)</sup> Includes only securities held by those managers with small cap mandates. Does not include small cap holdings which may be held in other managers' portfolios.					

**Teachers' Retirement System  
Credit Risk of Investments  
Pension Trust Funds  
(Expressed in Thousands)  
June 30, 2001**

	Category			Fair Value
	1	2	3	
Marketable debt securities				
Domestic fixed income	\$ 1,097,098			1,097,098
International fixed income	193,817			193,817
Equity securities				
Domestic equities	1,680,104			1,680,104
International equities	665,402			665,402
Emerging market equities	-	39,073	-	39,073
	<u>\$ 3,636,421</u>	<u>39,073</u>	<u>-</u>	<u>3,675,494</u>
Not Categorized				
Venture capital limited partnerships				104,282
Real estate equities				<u>295,320</u>
Total investments not categorized				<u>399,602</u>
Total investments				<u><u>4,075,096</u></u>

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Fund's deposits or securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 — Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 — Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 — Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The Fund's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Fund's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Fund participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like Emerging Markets Equity Pool which are considered to be Category 2, and (B) shares in the Venture capital limited partnerships and the Real estate equity pool which, like the Fund's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.



**Alaska State Pension Investment Board  
Recaptured Commission Fees Received in FY 2001**

	<u>Domestic Equity</u>	<u>International Equity</u>	<u>Total</u>
PERS	\$ 567,336	351,307	918,643
TRS	287,764	177,829	465,593
Judicial	3,665	3,224	6,889
Military	<u>768</u>	<u>393</u>	<u>1,161</u>
Total	<u><u>\$ 859,533</u></u>	<u><u>532,753</u></u>	<u><u>1,392,286</u></u>

The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to “recapture” a portion of commission dollars paid to broker-dealer firms for executing trades. In June 1995, the large capitalization domestic equity managers were asked to participate in the program targeting 20% of their trading value. The equity managers were asked to consider best execution first and foremost, but encouraged to participate in the commission recapture program when possible. In July 1996, ASPIB raised the level of elective participation for the large capitalization domestic equity managers from 20% to 30% of total trading activity. At that time ASPIB also requested that small capitalization managers participate in the commission recapture program when the opportunity was available to them.

In January 1998, the Alaska State Pension Investment Board (ASPIB) augmented its commission recapture program to include external managers that conduct international equity trades. As a result, a portion of the commission recapture payments received since January have resulted from international equity trades.

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